

**CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT
OSKALOOSA, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

June 30, 2011

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CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

WATERWORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Padgett	Chairman	July, 2012
Joe Ryan	Secretary	July, 2016
Mike Vore	Trustee	July, 2014
Chad Coon	General Manager	Indefinite
Sheryl Tomlinson	Office Manager	Indefinite
Cindy Scholtus	Billings Clerk	Indefinite
Crystal Breuklander	Customer Service	Indefinite
David Dixon	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Oskaloosa Municipal Water Department
Oskaloosa, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Oskaloosa Municipal Water Department, as of and for the year ended June 30, 2011, which collectively comprise the Water Department's basic financial statements listed in the table of contents. These financial statements are the responsibility of Water Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Oskaloosa Municipal Water Department as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2011 on our consideration of the Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City of Oskaloosa Municipal Water Department has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Other supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
November 30, 2011

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Basic Financial Statements

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the year ended June 30, 2011

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net (Disbursements) Receipts</u>
Functions/Programs:			
Business Type Activities:			
Water operating	\$ 1,577,704	\$ 2,009,077	\$ 431,373
Debt service	409,165	-	(409,165)
Capital projects	659,985	-	(659,985)
	<u>\$ 2,646,854</u>	<u>\$ 2,009,077</u>	<u>\$ (637,777)</u>
General receipts:			
Unrestricted investment earnings			20,128
Rents collected			18,078
Miscellaneous			42,932
Note proceeds			<u>659,985</u>
Total general receipts			<u>741,123</u>
Change in cash basis net assets			103,346
Cash basis net assets beginning of year			<u>1,457,292</u>
Cash basis net assets end of year			<u>\$ 1,560,638</u>
Cash basis net assets:			
Restricted:			
Expendable:			
Debt service			\$ 34,900
Unrestricted			<u>1,525,738</u>
Total cash basis net assets			<u>\$ 1,560,638</u>

See notes to financial statements.

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CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

	Enterprise Funds				Total
	Water Utility Operating	Designated for Improvements	Designated for Meter Replacement	Sinking Fund	
Operating receipts:					
Use of money and property:					
Meter rent	\$ 13,674	\$ -	\$ -	\$ -	13,674
House rent	360	-	-	-	360
Sprinkler and hydrant rent	4,044	-	-	-	4,044
	18,078	-	-	-	18,078
Charges for services:					
Meter water sales	1,836,623	-	-	-	1,836,623
Late and inspection fees	35,932	-	-	-	35,932
Labor charges	6,986	-	-	-	6,986
Sales tax collected	129,536	-	-	-	129,536
	2,009,077	-	-	-	2,009,077
Miscellaneous:					
Materials sold	8,723	-	-	-	8,723
Reimbursements/refunds	3,502	-	-	-	3,502
Tower rental	18,000	-	-	-	18,000
Miscellaneous	12,707	-	-	-	12,707
	42,932	-	-	-	42,932
Total operating receipts	2,070,087	-	-	-	2,070,087
Disbursements:					
Business type activities:					
Administration:					
Labor	249,100	-	-	-	249,100
Related labor expenses	34,534	-	-	-	34,534
Health insurance	147,572	-	-	-	147,572
Publications	1,777	-	-	-	1,777
Audit fees	8,825	-	-	-	8,825
Legal fees	150	-	-	-	150
Maintenance - Building	141	-	-	-	141
Computer expense	15,282	-	-	-	15,282
Insurance	54,021	-	-	-	54,021
Postage	12,314	-	-	-	12,314
Meter reading service	16,011	-	-	-	16,011
Telephone	6,571	-	-	-	6,571
Dues and subscriptions	3,958	-	-	-	3,958
Education/Seminars	581	-	-	-	581
Custodial expense	1,242	-	-	-	1,242

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

	Enterprise Funds				
	Water Utility Operating	Designated for Improvements	Designated for Meter Replacement	Sinking Fund	Total
Disbursements (continued):					
Business type activities (continued):					
Administration (continued):					
Office supplies	\$ 4,694	\$ -	\$ -	\$ -	4,694
Miscellaneous supplies	2,947	-	-	-	2,947
Capital outlay and replacements	1,726	-	-	-	1,726
	561,446	-	-	-	561,446
Plant operation and maintenance:					
Labor	155,243	-	-	-	155,243
Related labor expenses	22,615	-	-	-	22,615
Lab expense	10,148	-	-	-	10,148
Maintenance:					
Buildings	3,287	-	-	-	3,287
Wells	29,594	-	-	-	29,594
Grounds	21,239	-	-	-	21,239
Machinery	16,148	-	-	-	16,148
Education/Seminars	760	-	-	-	760
Utilities	77,038	-	-	-	77,038
Miscellaneous supplies	2,998	-	-	-	2,998
Miscellaneous expense	390	-	-	-	390
Chemicals	162,457	-	-	-	162,457
Capital outlay and replacements	12,014	659,985	-	-	671,999
	513,931	659,985	-	-	1,173,916
Distribution operations:					
Labor	144,122	-	-	-	144,122
Related labor expenses	21,042	-	-	-	21,042
Uniforms	2,105	-	-	-	2,105
Maintenance:					
Meters	11,130	-	-	-	11,130
Water system	50,526	-	-	-	50,526
Building	102	-	-	-	102
Machinery	2,513	-	-	-	2,513
Gas	13,590	-	-	-	13,590
Rent expense	10,200	-	-	-	10,200
Truck expense	2,555	-	-	-	2,555
Education/Seminars	888	-	-	-	888
Utilities	5,546	-	-	-	5,546
Small tools	2,451	-	-	-	2,451
Miscellaneous supplies	2,034	-	-	-	2,034

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

	Enterprise Funds				
	Water Utility Operating	Designated for Improvements	Designated for Meter Replacement	Sinking Fund	Total
Disbursements (continued):					
Business type activities (continued):					
Distribution operations (continued):					
Miscellaneous expense	\$ 1,149	\$ -	\$ -	\$ -	1,149
Capital outlay and replacements	102,893	-	-	-	102,893
Debt service	-	-	-	409,165	409,165
	<u>372,846</u>	<u>-</u>	<u>-</u>	<u>409,165</u>	<u>782,011</u>
Other:					
Sales tax remitted	129,481	-	-	-	129,481
Total operating disbursements	<u>1,577,704</u>	<u>659,985</u>	<u>-</u>	<u>409,165</u>	<u>2,646,854</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	492,383	(659,985)	-	(409,165)	(576,767)
Non operating receipts:					
Interest on investments	20,128	-	-	-	20,128
Excess (deficiency) of receipts over (under) disbursements	<u>512,511</u>	<u>(659,985)</u>	<u>-</u>	<u>(409,165)</u>	<u>(556,639)</u>
Other financing sources (uses):					
Note proceeds	-	659,985	-	-	659,985
Operating transfers in (note 3)	-	-	36,000	409,584	445,584
Operating transfers out (note 3)	(445,584)	-	-	-	(445,584)
Total other financing sources (uses)	<u>(445,584)</u>	<u>659,985</u>	<u>36,000</u>	<u>409,584</u>	<u>659,985</u>
Net change in cash balances	66,927	-	36,000	419	103,346
Cash balance beginning of year	<u>1,354,753</u>	<u>-</u>	<u>68,058</u>	<u>34,481</u>	<u>1,457,292</u>
Cash balance end of year	<u>\$ 1,421,680</u>	<u>\$ -</u>	<u>\$ 104,058</u>	<u>\$ 34,900</u>	<u>\$ 1,560,638</u>

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2011

	Enterprise Funds				Total
	Water Utility Operating	Designated for Improvements	Designated for Meter Replacement	Sinking Fund	
Cash basis fund balances:					
Restricted:					
Debt service	\$ -	\$ -	\$ -	\$ 34,900	\$ 34,900
Unrestricted	1,421,680	-	104,058	-	1,525,738
	<u>\$ 1,421,680</u>	<u>\$ -</u>	<u>\$ 104,058</u>	<u>\$ 34,900</u>	<u>\$ 1,560,638</u>

See notes to financial statements.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
AGENCY FUNDS
Year ended June 30, 2011

	<u>Customer Deposits</u>	<u>Sewer Receipts</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 1,474,202	\$ 1,474,202
Stormwater receipts	-	225,238	225,238
Miscellaneous:			
Customer deposits	48,075	-	48,075
Total receipts	<u>48,075</u>	<u>1,699,440</u>	<u>1,747,515</u>
Disbursements:			
Business type activities:			
Customers' deposits refunded	43,953	-	43,953
Sanitary sewer receipts remitted to City	-	1,465,921	1,465,921
Stormwater receipts remitted to City	-	225,292	225,292
Total disbursements	<u>43,953</u>	<u>1,691,213</u>	<u>1,735,166</u>
Excess (deficiency) of receipts over (under) disbursements	4,122	8,227	12,349
Balance beginning of year	<u>71,973</u>	<u>124,537</u>	<u>196,510</u>
Balance end of year	<u>\$ 76,095</u>	<u>\$ 132,764</u>	<u>\$ 208,859</u>

See notes to financial statements.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

The City of Oskaloosa Municipal Water Department is an independent department and a component unit of the City of Oskaloosa. The Waterworks operates under an appointed Board of Trustees. The Water Department provides water service to the residents of Oskaloosa, Iowa located in Mahaska County.

A. Reporting Entity

For financial reporting purposes, the Municipal Water Department of the City of Oskaloosa, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Water Department has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Department, are such that exclusion would cause the Water Department's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Department. The Water Department has no component units which meet the Governmental Accounting Standards Board criteria. These statements do not include any other City of Oskaloosa funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government, the Water Department, and any component units. For the most part, the effect of interfund activity has been removed from this financial statement.

The Statement of Activities and Net Assets presents the Water Department's nonfiduciary net assets. Net assets are reported in two categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category.

Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead as general receipts.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

Fund Financial Statements – Separate financial statements are provided for proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual proprietary funds are reported as separate columns in the funds financial statements. All remaining proprietary funds are aggregated and reported as other nonmajor proprietary funds.

The Water Department reports the following major proprietary funds:

Operating, Improvements, Meter Replacement, and Sinking Fund Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Additionally, the Water Department reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the City of Oskaloosa Municipal Water Department in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

C. Basis of Accounting

The Municipal Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Water Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparisons and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The City of Oskaloosa Municipal Water Department's deposits at June 30, 2011 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 2. Cash and Pooled Investments (continued)

The Water Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City of Oskaloosa Municipal Water Department's Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investments companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the Water Department had the following investments:

Type	Carrying Amount	Fair Value	Maturity
Certificate of Deposit	\$ 50,000	\$ 50,000	July 8, 2011
Certificate of Deposit	365,000	365,000	December 23, 2011
Certificate of Deposit	300,000	300,000	February 5, 2012
Certificate of Deposit	<u>200,000</u>	<u>200,000</u>	March 18, 2012
	<u>\$ 915,000</u>	<u>\$ 915,000</u>	

Interest rate risk – The Water Department's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Department.

Credit risk - The Water Department investments, held in financial depositories, are not subject to level of risk categorization.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfers from	Transfers to	Amount
Proprietary Enterprise: Water Utility Operating	Proprietary Enterprise: Meter Replacement	\$ 36,000
	Sinking Fund	<u>409,584</u>
Total		<u>\$ 445,584</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 4. Indebtedness

During the year the Water Department authorized and the Iowa Finance Authority approved Water Revenue Capital Loan Notes not to exceed \$6,500,000. The Water Department borrowed \$659,985, paid \$221,000 of principal, \$171,915 in interest and \$16,250 in service fees during the year. The annual debt service requirements to maturity for the revenue capital loan notes is as follows based on the full \$6,092,000 being borrowed:

Year Ending June 30,	Revenue Capital Loan Notes				
	Water				
	Issued January 7, 2009				
	Interest Rate	Interest	Service Fee	Principal	Total
2012	3.00 % \$	176,130 \$	14,678 \$	228,000 \$	418,808
2013	3.00	169,290	14,107	236,000	419,397
2014	3.00	162,210	13,518	243,000	418,728
2015	3.00	154,920	12,910	251,000	418,830
2016	3.00	147,390	12,283	259,000	418,673
2017	3.00	139,620	11,635	268,000	419,255
2018	3.00	131,580	10,965	277,000	419,545
2019	3.00	123,270	10,272	285,000	418,542
2020	3.00	114,720	9,560	295,000	419,280
2021	3.00	105,870	8,823	304,000	418,693
2022	3.00	96,750	8,062	314,000	418,812
2023	3.00	87,330	7,278	324,000	418,608
2024	3.00	77,610	6,467	335,000	419,077
2025	3.00	67,560	5,630	346,000	419,190
2026	3.00	57,180	4,765	357,000	418,945
2027	3.00	46,470	3,873	369,000	419,343
2028	3.00	35,400	2,950	381,000	419,350
2029	3.00	23,970	1,998	393,000	418,968
2030	3.00	12,180	1,015	406,000	419,195
		<u>\$ 1,929,450</u>	<u>\$ 160,789</u>	<u>\$ 5,871,000</u>	<u>\$ 7,961,239</u>

The resolution providing for the issuance of the revenue capital loan notes include the following provisions:

- a) The bonds will only be redeemed from the future earnings of the enterprise activity.
- b) Sufficient monthly cash transfers shall be made to a sinking fund account for the purpose of making the capital loan note principal, interest payments and service fee when due.
- c) Sufficiency of rates. On or before the beginning of each fiscal year the governing body will adopt or continue in effect rates for all services rendered by the Water Department determined to be sufficient to produce Net Revenues for the next succeeding fiscal year which are (i) adequate to pay the principal and interest requirements thereof and to create or maintain the reserves as provided in this Resolution, and (ii) not less than 110 percent of the principal and interest requirements of the next succeeding fiscal year.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 5. Pension and Retirement Benefits

The Water Department contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50% of their annual salary and the Waterworks is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Water Department's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 and were \$36,853, \$34,127, and \$32,766, respectively, equal to the required contributions for the year.

Note 6. Other Postemployment Benefits (OPEB)

Plan Description – The City of Oskaloosa Municipal Water Department operates a benefit plan which provides medical/prescription drug and dental benefits for employees and their families. There are 10 active members in the plan.

The medical/prescription drug and dental benefits are provided through a fully-insured plan with Wellmark.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Water Department. The City currently finances the employees benefit plan on a pay-as-you-go basis. Employees contribute a certain amount for dental insurance each month \$5 for single plan, \$10 for employee/spouse, and \$16 for family plan. The most recent active member monthly premiums for the Water Department plan members are \$576 for single coverage, \$1,179 for employee/spouse, and \$1,729 for family coverage. For the year ended June 30, 2011, the Water Department contributed \$144,366 and plan members eligible for benefits contributed \$1,414 to the plan.

Note 7. Compensated Absences

Water Department's employees accumulate a limited amount of earned but unused vacation, sick leave and comp hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for unrecognized earned compensated absences is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 14,828
Sick Leave	74,860
Comp	6,108
Holiday Leave	<u>330</u>
Total	<u>\$ 96,126</u>

This liability has been computed based on rates of pay as of June 30, 2011.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 8. Risk Management

The Oskaloosa Municipal Water Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Water Department assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Operating Lease

The Water Department is leasing a building under a lease agreement which expires on July 31, 2012 and provides for monthly rental payments of \$850. The rental payments disbursed during the year ended June 30, 2011 totaled \$10,200.

Note 10. Sewer and Stormwater Receipts

The Water Department assesses and collects sewer and stormwater charges for the City of Oskaloosa, Iowa. The receipts from collections from customers and remittances to the City of Oskaloosa are accounted for in the Agency - Sewer Receipts Fund.

Note 11. Commitments and Contingencies

In January, 2002 the Water Department implemented a plan to self-fund the increase in their out of pocket and deductible limits of their health insurance policy for all eligible employees. The maximum annual calendar year exposure to the Waterworks would be \$14,000 of which \$234 have been paid in claims as of June 30, 2011. The maximum remaining contingent liability as of June 30, 2011 is \$13,766.

The Water Department Board approved construction agreements and change orders totaling \$5,153,252 and had an engineering agreement from the prior year of \$735,000. As of June 30, 2011, \$5,815,283 on the agreements have been paid. The balance of the agreements of \$72,969 will be paid as the services are completed.

The Water Department has entered into a five year contract for leak detection services that will cost \$3,000 per year, effective on June 30, 2011.

Required Supplementary Information

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – PROPRIETARY FUNDS
Required Supplementary Information
Year Ended June 30, 2011

	<u>Actual</u>	<u>Amounts Not Required to be Budgeted</u>	<u>Actual Net</u>
Receipts:			
Water:			
Use of money and property	\$ 38,206	\$ -	\$ 38,206
Charges for services	1,879,541	-	1,879,541
Intergovernmental	-	-	-
Miscellaneous	91,007	48,075	42,932
	<u>2,008,754</u>	<u>48,075</u>	<u>1,960,679</u>
 Other financing sources	 659,985	 -	 659,985
	<u>2,668,739</u>	<u>48,075</u>	<u>2,620,664</u>
Disbursements:			
Business type activities:			
Water	2,561,271	43,953	2,517,318
	<u>2,561,271</u>	<u>43,953</u>	<u>2,517,318</u>
Excess of receipts over disbursements/ (disbursements over receipts)	107,468	4,122	103,346
Cash balances beginning of year	1,529,265	71,973	1,457,292
Cash balances end of year	<u>\$ 1,636,733</u>	<u>\$ 76,095</u>	<u>\$ 1,560,638</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance Favorable (Unfavorable)
Original	Final	
\$ 25,254	\$ 33,760	\$ 4,446
1,911,740	1,927,528	(47,987)
-	-	-
28,500	34,500	8,432
1,965,494	1,995,788	(35,109)
267,100	712,084	(52,099)
2,232,594	2,707,872	(87,208)
2,183,148	2,671,934	154,616
\$ 49,446	\$ 35,938	\$ 67,408

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgeting perspective differences resulting from not being able to present comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Water Department's Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds, except agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for Proprietary Enterprise Funds. Although the budget document presents function disbursements by Fund, the legal level of control is at the aggregate function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$488,786 due, in part, to a capital improvement project carried over from the previous year. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Approved to be Issued</u>	<u>Balance Beginning of Year</u>
Revenue Refunding Capital Loan Notes: Water	January 7, 2009	3.00%	\$ 6,500,000	\$ <u>5,379,523</u>

See accompanying independent auditor's report.

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Service Fee Paid</u>	<u>Interest Due and Unpaid</u>	<u>Service Fee Due and Unpaid</u>	<u>Notes Due and Unpaid</u>
\$ <u>659,985</u>	\$ <u>221,000</u>	\$ <u>5,818,508</u>	\$ <u>171,915</u>	\$ <u>16,250</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

DEBT MATURITIES
Year Ended June 30, 2011

Year Ending June 30,	Revenue Capital Loan Notes					
	Water					
	Issued January 7, 2009					
	Interest Rate	Interest	Service Fee	Principal	Total	
2012	3.00 % \$	176,130 \$	14,678 \$	228,000 \$	418,808	
2013	3.00	169,290	14,107	236,000	419,397	
2014	3.00	162,210	13,518	243,000	418,728	
2015	3.00	154,920	12,910	251,000	418,830	
2016	3.00	147,390	12,283	259,000	418,673	
2017	3.00	139,620	11,635	268,000	419,255	
2018	3.00	131,580	10,965	277,000	419,545	
2019	3.00	123,270	10,272	285,000	418,542	
2020	3.00	114,720	9,560	295,000	419,280	
2021	3.00	105,870	8,823	304,000	418,693	
2022	3.00	96,750	8,062	314,000	418,812	
2023	3.00	87,330	7,278	324,000	418,608	
2024	3.00	77,610	6,467	335,000	419,077	
2025	3.00	67,560	5,630	346,000	419,190	
2026	3.00	57,180	4,765	357,000	418,945	
2027	3.00	46,470	3,873	369,000	419,343	
2028	3.00	35,400	2,950	381,000	419,350	
2029	3.00	23,970	1,998	393,000	418,968	
2030	3.00	12,180	1,015	406,000	419,195	
		\$ 1,929,450	\$ 160,789	\$ 5,871,000	\$ 7,961,239	

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees:
City of Oskaloosa Municipal Water Department
Oskaloosa, Iowa

We have audited the financial statements of the business-type activities, each major fund and the aggregate remaining fund information of the Municipal Water Department, a component unit of the City of Oskaloosa as of and for the year ended June 30, 2011, which collectively comprise the Water Department's basic financial statements listed in the table of contents, and have issued our report thereon dated November 30, 2011. Our report expressed an unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Water Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipal Water Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipal Water Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weaknesses is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Oskaloosa Municipal Water Department's financial statements will not be prevented or detected and corrected on a timely basis. We noted no material weaknesses in internal control over financial reporting during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Oskaloosa Municipal Water Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards.

Comments involving statutory and other legal matters about the City of Oskaloosa Municipal Water Department's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Oskaloosa Municipal Water Department and other parties to whom City of Oskaloosa Municipal Water Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Oskaloosa Municipal Water Department during the course of our audit. Should you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
November 30, 2011

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

No matters were noted.

Instances of Non-Compliance:

No matters were noted.

CITY OF OSKALOOSA
MUNICIPAL WATER DEPARTMENT

SCHEDULE OF FINDINGS

Year Ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Official Depositories - A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.
- II-B-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted in the business type activities function.
- II-C-11 Questionable Disbursements - No disbursements were noted that might not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- II-D-11 Travel Expense - No disbursements of the Water Department's money for travel expense of spouses of the Water Department's officials or employees were noted.
- II-E-11 Business Transactions - No business transactions between the Water Department and the Water Department's officials or employees were noted.
- II-F-11 Bond Coverage - Surety bond of Water Department officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-11 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Water Department's investment policy were noted.
- II-I-11 Revenue Notes – No instances of non-compliance with the revenue note resolutions were noted.